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IN THE

Supreme Court of the United States

OCTOBER TERM, 1968

No. 1244

RADIO CORPORATION OF AMERICA,
Petitioner,

—against—

SCM CORPORATION,
Respondent.

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

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April 9, 1969

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PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

Petitioner Radio Corporation of America ("RCA") prays that a writ of certiorari issue to review the judgment of the United States Court of Appeals entered in the above entitled case on January 9, 1969, which affirmed (with Judge Timbers dissenting) the District Court's dismissal of petitioner's counterclaim for failure to state a claim upon which relief could be granted.

Opinions Below

The opinion of the Court of Appeals is not yet reported; it is printed as Appendix A hereto. The opinion of the District Court is reported at 276 F. Supp. 373 and printed as Appendix B hereto. Petitioner's dismissed counterclaim is printed as Appendix C.

JURISDICTION

The opinion of the Court of Appeals was rendered on January 9, 1969. The jurisdiction of this Court is invoked under 28 U. S. C. § 1254(1).

QUESTIONS PRESENTED

This petition presents a significant issue under the antitrust laws never passed on by this Court:

May the courts deny relief under the antitrust laws on the ground that injury and damage was only "incidental" where a person has been both injured and damaged in his business and property, and is threatened with further injury and damage by reason of antitrust violations?

The doctrine of "incidental" or "indirect" injuries applied by the courts below to limit those who may sue for antitrust violations is a judicially created restriction upon the statutory private antitrust remedies on which the Courts of Appeals are themselves in disagreement.

Secondly, assuming that such a doctrine may have proper applications in certain circumstances, can it be applied where the antitrust violations are directed against petitioner specifically, in order both to build up bargaining power in the violator for use against this petitioner and then to penalize him when he refuses to cooperate with the violator in his scheme of monopolization?

THE STATUTES INVOLVED

Section 4 of the Clayton Act, 15 U. S. C. § 15, creates a private right of action for damages suffered as a result of violations of the antitrust laws:

> "Any person who shall be injured in his business or property by reason of anything forbidden in the antitrust laws may sue therefor * * * and shall recover threefold the damages by him sustained, and the cost of suit, including a reasonable attorney's fee."

Section 16 of the Clayton Act, 15 U. S. C. § 26, authorizes private suits for injunctions:

> "Any person, firm, corporation, or association shall be entitled to sue for and have injunctive relief, in any court of the United States having jurisdiction over the parties, against threatened loss or damage by a violation of the antitrust laws * * * when and under the same conditions and principles as injunctive relief against threatened conduct that will cause loss or damage is granted by courts of equity, under the rules governing such proceedings * * *."

One of the antitrust laws which respondent violated is Section 2 of the Sherman Act, 15 U. S. C. § 2:

> "Every person who shall monopolize, or attempt to monopolize, or combine or conspire with any other person or persons, to monopolize any part of the trade or commerce among the several States, or with foreign nations, shall be deemed guilty of a misdemeanor * * *."

Respondent also violated Section 3 of the Clayton Act, 15 U. S. C. § 14, which makes it unlawful for any person to lease or sell machinery

> "* * * on the condition, agreement, or understanding that the lessee or purchaser thereof shall not use or deal in the goods, wares, merchandise, machinery, supplies, or other commodities of a competitor or

competitors of the lessor or seller, where the effect of such lease, sale, or contract for sale or such condition, agreement, or understanding may be to substantially lessen competiton or tend to create a monopoly in any line of commerce."

STATEMENT OF THE CASE

The allegations of RCA's counterclaim, which admittedly must be taken as true, set forth the facts of this case.

The Origin of the Electrofax Market and RCA's Relationship to it

After extensive research, RCA originated and developed an electrostatic printing process identified by the RCA trademark "Electrofax". RCA obtained patent protection relating to the process as well as to the machines and paper used in performing it (2c).

While those patents would have entitled RCA to exclude all others from the field, it has in fact freely granted non-exclusive licenses under its patents to all interested parties. Through this procedure RCA has "sought to establish a free and open competitive market for Electrofax machines and Electrofax paper, thus obtaining the benefits to be achieved from the stimulus of free competition" (3c).

RCA has not itself engaged in the commercial manufacture or sale of Electrofax machines or paper; it has, however, received royalties from its licensees based on a percentage of their selling prices (3c).

The sale, leasing and servicing of Electrofax machines, and the sale of Electrofax paper for use with such machines, constitute substantial lines of trade and commerce (3c-5c); the coverage of RCA's Electrofax patents corresponds to those substantial lines of trade and commerce.

SCM's Illegal Monopolization

Beginning about 1959 SCM has attempted to monopolize, and has monopolized, the Electrofax market in viola-

tion of Section 2 of the Sherman Act, and through the use of tying contracts in violation of Section 3 of the Clayton Act; the purpose of this monopolization was directed both to eliminating RCA's other licensees and also, and quite specifically, to injuring RCA by confronting it with only one possible licensee, SCM, who would then be able to dictate the terms of its license. In particular, SCM entered this business by hiring away employees of its prospective competitors who had access to RCA's technology and, in some cases, by inducing them to breach their agreements with their employers. SCM also acquired one of its potential competitors in the Electrofax market, a company which was an RCA licensee and had practical knowledge of RCA's Electrofax copying system (5c-6c).

By such means, SCM succeeded in obtaining, by 1963, 40% of the sales and other placement of all Electrofax machines, and 100% of the market for certain types of such machines; SCM is thus now the dominant manufacturer in the United States of such machines (7c).

SCM has also used its monopoly power in the sale and leasing of Electrofax machines to control the market for Electrofax paper by requiring lessees of its machines to purchase all of their paper requirements from SCM; SCM has also discouraged persons who own its machines from purchasing paper from others by providing that its service contracts and guaranties of its machines would not apply in such an event (8c). Other predatory acts on behalf of SCM by means of which it obtained its dominant position in the Electrofax field are also alleged (8c-9c).

SCM's Attempts to Coerce RCA

SCM's scheme of monopolization envisaged two stages: first SCM would drive its competitors out of business, or prevent others from competing, and then, having obtained

monopoly power, it would bring that power to bear on RCA in demanding reductions in the royalties it would pay to RCA. The reduction in royalties it could thereby extract from RCA was clearly intended as one of the methods by which SCM could "cash-in" on its market position. This does not mean, of course, that the impact on RCA's royalties would only be felt at that point; on the contrary, as SCM's market position increased, prices inevitably increased, thus reducing total sales and RCA's royalties.

Having illegally achieved a dominant position in the Electrofax market, SCM then in fact attempted to enlist RCA's cooperation in finally sewing up the market for SCM. At the outset RCA, by reason of its ownership of the basic Electrofax patent, obviously was in a position to control the extent and nature of competition in the market by means of its licensing policies. RCA chose to encourage a free and open competitive market, and it is that policy which SCM attempted to, and has, frustrated.

In March of 1963, SCM took a license under the process claims of RCA's basic Electrofax patent. During 1964 RCA entered into discussions with all of its licensees, including SCM, looking towards a uniform reduction in its royalty rates, and all of RCA's commercially active licensees, except SCM, agreed to such a reduction (10c-11c).

In order to further its control over the market, SCM demanded that it be given a larger reduction in royalties than its competitors had received (11c); SCM, in short, planned to use RCA's licensing program to gain a further advantage over its remaining competitors. Such a discriminatory royalty rate would have violated the antitrust laws.[1]

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[1] *La Peyre* v. *FTC*, 366 F. 2d 117 (5th Cir. 1966); *Peelers Company* v. *Wendt*, 260 F. Supp. 193 (W. D. Wash. 1966); *Cf. FTC* v. *Fred Meyer, Inc.*; 390 U. S. 341 (1968).

SCM did not itself Manufacture Electrofax paper, but purchased it from paper manufacturers for resale to users of its machines (7c). In the course of these negotiations between SCM and RCA, SCM also tried to force RCA to shift the entire royalty burden onto the paper manufacturers by requiring them to take a package license of both the product and process claims of RCA's basic Electrofax patent, while exempting machine manufacturers such as SCM from any royalty payments under that patent. By coercing RCA into what might well be regarded as an unlawful compulsory licensing program,[2] SCM hoped to squeeze paper manufacturers and to increase its monopoly profit on its machines (11c-12c).

These efforts were, however, unsuccessful. The fact is that

> "When RCA refused to accede to plaintiff's various demands set forth above, plaintiff further informed RCA that unless RCA acceded to these demands it would terminate its existing license agreement with RCA. Upon RCA's continued refusal to accede to plaintiff's demands, as set forth above, plaintiff notified RCA by letter dated March 5, 1965 that it was terminating its existing license with RCA and instituting this action" (12c, ¶ 67).

SCM's lawsuit challenging the validity of RCA's patents followed. The jurisdiction of the District Court over SCM's claims was based on 28 USC § 1338(a); the jurisdiction of the District Court over RCA's antitrust counter-

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[2]A licensor is required under the antitrust laws to permit its licensees to elect to pay separately for the use of separate patent monopolies. *American Securit Co.* v. *Shatterproof Glass Corp.*, 154 F. Supp. 890 (D. Del. 1957), *aff'd*, 268 F. 2d 769 (3d Cir.), *cert. den.*, 361 U. S. 902 (1959); *United States* v. *Univis Lens Co.*, 316 U. S. 241 (1942); *United States* v. *Loew's Inc.*, 371 U. S. 38 (1962).

claim was based on Sections 4 and 16 of the Clayton Act, 15 USC §§ 15, 26.[3]

The Damage to RCA

RCA has been damaged by SCM's conduct in two respects:

(1) SCM's monopolization of the Electrofax market has prevented RCA from receiving royalties from SCM's actual competitors, whose business has been restricted, and from its potential competitors, who would have taken licenses from RCA; in other words, as a result of SCM's illegal activities, RCA has been limited to the royalties generated by a stunted market rather than the open and competitive market it had sought to foster (14c-15c). While RCA does not seek to recover those lost royalties on this phase of the case, it does seek injunctive relief against SCM's continued monopolization.

(2) RCA has also been unlawfully deprived of royalties due from SCM which SCM cut off as retaliation for RCA's refusal to assist it in its program of monopolization (13c). RCA does seek to recover those lost royalties as damages under the antitrust laws.[4]

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[3]SCM originally sued for a declaration of invalidity and non-infringement with respect to certain RCA patents; later it amended to include claims of fraudulent procurement of the patents. RCA denied these allegations and counterclaimed for infringement (the First Counterclaim) and under the antitrust laws (the Second Counterclaim). The present petition is from the dismissal of RCA's Second Counterclaim. Meanwhile, the patent issues have been tried before the District Court, and the matter is presently *sub judice* there.

[4]The fact that RCA may recover these royalties due from SCM under its counterclaim for patent infringement does not affect RCA's right to treble damages under the antitrust laws. *Carnation Co.* v. *Pacific Westbound Conference*, 383 U. S. 213 (1966). Single recovery of the royalties would be a deduction from RCA's treble damages under the antitrust laws, and such a deduction is made only *after*, not before, trebling. *Flintkote Co.* v. *Lysfjord*, 246 F. 2d 368, 397-398 (9th Cir.), *cert. den.*, 355 U. S. 835 (1957).

The Opinions Below

The District Court concluded that RCA was not entitled to seek injunctive relief with respect to its loss of royalties from actual and potential licensees since that loss, "although perhaps very real" (7b) was too "incidental" to sustain a claim under the antitrust laws.

The District Court also held that RCA's loss of the royalties which SCM withheld in retaliation for RCA's refusal to conspire with it could not support a claim for treble damages because

> (a) rather than yielding to SCM's threats, RCA refused to participate in SCM's illegal scheme, and thus SCM's market dominance was not a "proximate cause" of RCA's loss of royalties. The District Court acknowledged, however, that if RCA had yielded to SCM's demands and granted a discriminatory royalty, then "perhaps it could be said that in some way, by means of its dominance, [SCM] had forced [RCA] to accept this loss of revenue. But [RCA] did not yield." Having resisted SCM's pressure, RCA could not recover the loss SCM then inflicted upon it as punishment (8b-9b).
>
> (b) Secondly, the District Court concluded, as a matter of law, that SCM's termination of its license could not have affected competition in the Electrofax industry or enhanced SCM's monopolistic position in that industry (9b).

RCA's loss of royalties from SCM was, the District Court concluded, an injury which RCA suffered because SCM decided to terminate the license and challenge RCA's patents, and as to that injury SCM's scheme of monopolization was "irrelevant" (11b).

The opinion of the Court of Appeals adds little to the analysis of the District Court. It does stand, however,

as a reaffirmation of the notion that a private plaintiff may be barred from relief under the antitrust laws, even though defendant has violated those laws, and even though those violations have caused injury to the plaintiff, if the injuries are only "incidental" (1a-12a).

Judge Timbers filed a dissent from the Court of Appeals' opinion. He concluded that even if the "incidental injuries" doctrine had continued vitality, RCA was directly injured, both by SCM's monopolization of the Electrofax market and by its termination of royalty payments pursuant to its plan to monopolize (12a-15a).

REASONS FOR GRANTING THE WRIT

I

This Case Involves an Issue of Fundamental Importance Under the Antitrust Laws

The Doctrine of "Incidental" Injuries is a Judicial Amendment to the Clayton Act Which has Never Been Reviewed by This Court.

This doctrine of "incidental", and thus non-compensable and non-restrainable, injuries is a judicially-created restriction on the private remedies created by Sections 4 and 16 of the Clayton Act. Those Sections contain no requirement that the plaintiff's injuries, in addition to having been caused by defendant's violation of the antitrust laws, also be the "direct" result, as distinct from the "incidental" result, of defendant's violations.

The Clayton Act thus requires only that a private claimant establish (1) an antitrust violation; (2) either actual or threatened injury to himself resulting from the violation; and, if the suit is for treble-damages under Section 4,

(3) his damages in terms capable of pecuniary measurement. To be sure, there must be a causal relationship between the defendant's wrongdoing and the plaintiff's injury. But, if the violation, and consequential injury are all alleged, the Clayton Act provides no basis for dismissing a pleading on the theory that the injury was only "incidentally" caused by the violation; this is particularly true where, as here, the injuries were foreseeable and intended.

No sanction for such dismissal may be found in any opinion by this Court. On the contrary, while this is a case of first impression here, this Court has previously cautioned that the courts may not "add requirements to burden the private litigant beyond what is specifically set forth by Congress in those laws." *Radovich* v. *National Football League,* 352 U. S. 445, 454 (1957).

Despite the apparent clarity of the Clayton Act, over the years the lower courts have, however, contrary to this Court's rulings, imposed an additional requirement by developing a complex of rules for determining whether a private plaintiff's injuries are only the "incidental" result of defendant's violations. This development has largely been accomplished by labeling certain types of causal relationships as only "incidental" without any meaningful discussion of whether the purposes of the antitrust laws would be served in the particular circumstances by permitting suit. In short, the emphasis has been on verbal formalism, not policy-oriented analysis.

In its opinion in this case, the Court of Appeals relied chiefly upon its prior decision in *Productive Inventions, Inc.* v. *Trico Products Corp.,* 224 F.2d 678 (2d Cir. 1955), *cert. den.,* 350 U. S. 936 (1956). There the court denied a patentee the right to recover for royalties lost as a result of injuries inflicted on its licensee by defendant's antitrust violations. *Trico* recognized that a real financial loss might

have been suffered, but, regarding such a frustrated expectation as only a "hope" rather than a "right", held that the patentee's loss was only "incidental" to the acts complained of.

Similarly, the Court of Appeals in this case did not attempt any serious analysis of the Congressional purpose in providing private remedies, remarking only that:

> "Standing to sue was not given by Congress to any and every citizen who, motivated by public spirit or possibly some baser reason, would set himself up as a watchdog of business behavior. Congress properly bestowed the right to sue only on such persons as might be injured in their business or property *by reason of* anything forbidden in the antitrust laws." (12a)

This *ad hominem* comment hardly meets the point. The "incidental injury" doctrine has been fashioned to bar suit, not by those whose injuries have no causal connection with the antitrust violations, but where the admitted causal connection does not appear to the courts to be sufficiently direct to merit consideration. In this case, for example, there is no question but that RCA's loss of royalties (a loss which the District Court recognized was "perhaps very real") resulted from SCM's restriction of competition in the Electrofax market; nor can it be seriously contended that RCA is a gratuitous suitor who, for no very good reason, has set itself up as a "watchdog of business behavior."

Rather than providing a meaningful basis for decision, the courts in utilizing this "direct" versus "incidental" dichotomy have been doing what Justice Stone, in a similar context, called "little more than using labels to describe a result rather than any trustworthy formula by which it is

reached", *DiSanto* v. *Pennsylvania*, 273 U. S. 34, 44 (1927) (dissenting).[5]

One of the few decisions which has attempted to elucidate the policy reasons behind this restrictive doctrine is Judge Wyzanski's opinion in *Snow Crest Beverages, Inc.*, v. *Recipe Foods, Inc.*, 147 F. Supp. 907 (D. Mass. 1956). Recognizing that the judiciary has taken a position in antitrust cases "narrower than that often applied in non-statutory tort cases", and that they have denied recovery for losses which "as a matter of logic * * * were foreseeable" by the antitrust violator, Judge Wyzanski justified that result in terms of preventing private plaintiffs from receiving a "windfall" and subjecting businessmen to "liabilities of indefinable scope for conduct already subject to drastic private remedies." (at 909)

This petition squarely presents the question whether such a judicial gloss, founded upon an antiquated view of the purposes served by treble damage actions, has any place in the Clayton Act. We submit that it does not, no more than did the common-law defense of *in pari delicto*, see *Perma Life Mufflers, Inc.* v. *International Parts Corp.*, 392 U. S. 134 (1968). As the Court noted in *Perma Life*, "[w]e have often indicated the inappropriateness of invoking broad common-law barriers to relief where a private suit serves important public purposes", 392 U. S. at 138. The same rule should apply *a fortiori* to the "incidental" doctrine which, as Judge Wyzanski recognized in *Snow Crest*, is even narrower than that applied to common-law torts.

The "incidental injury" doctrine, to be sure, has not been received with equal acceptance in all of the Circuits; on the contrary, a substantial conflict has developed. In

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[5]The majority view in *DiSanto* was overruled in *California* v. *Thompson*, 313 U. S. 109 (1941), with Justice Stone writing the opinion for a unanimous court.

the Third Circuit, for example, a lessor whose rent is calculated as a percentage of his lessee's receipts has been regarded as only incidentally injured by antitrust violations which reduced the lessee's receipts, whether or not the lessee was a party to the violations;[6] this position has also apparently been adopted in the Second Circuit.[7] The Seventh Circuit has, however, vigorously disapproved of that rule and upheld the lessor's standing.[8] The Ninth Circuit has said:

> "As this court and others have noted, language in a number of Supreme Court opinions casts doubt upon these and other restrictive 'judicial glosses' upon the broad language of the Clayton Act § 4, 15 U. S. C. § 15." *Hoopes* v. *Union Oil Co. of California,* 374 F. 2d 480, 485 (9th Cir. 1967).

Other courts have, on the other hand, regarded the failure of Congress to overturn the earlier cases establishing the doctrine as virtually an implied amendment of the Clayton Act.[9]

We submit that the Court should take this opportunity to review, for the first time, this judicial rewriting of the Clayton Act.

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[6] *Harrison* v. *Paramount Pictures, Inc.,* 115 F. Supp. 312 (E. D. Pa. 1953), *aff'd per curiam on opinion below,* 211 F. 2d 405 (3d Cir.), *cert. den.,* 348 U. S. 828 (1954).

[7] See *Productive Inventions, Inc.* v. *Trico Products Corp., supra; Lieberthal* v. *North Country Lanes, Inc.,* 221 F. Supp. 685 (S.D.N.Y. 1963), *aff'd on other grounds,* 332 F. 2d 269 (2d Cir. 1964).

[8] *Congress Building Corp.* v. *Loew's, Inc.,* 246 F. 2d 587 (7th Cir. 1957).

[9] *Nationwide Auto Appraiser Service, Inc.* v. *Assn. of Casualty and Surety Companies,* 382 F. 2d 925 (10th Cir. 1967); *Snow Crest Beverages, Inc.* v. *Recipe Foods Inc., supra.*

This Doctrine is an Unwarranted Limitation on Private Antitrust Remedies

This case illustrates the lack of justification of the "incidental injuries" doctrine. One of SCM's conscious purposes in monopolizing the Electrofax market was to confront RCA with a single dominant licensee, SCM, who might then utilize its bargaining power to extract royalty reductions, as SCM in fact attempted to do. In addition, since RCA's patents constituted a key to the extent of competition in the Electrofax market, SCM could use its bargaining power, as it tried to do, to force RCA to grant it discriminatory advantages over its remaining competitors.

The diminution of RCA's royalty receipts resulting from SCM's domination of the Electrofax market was, in short, not only a foreseeable result of SCM's activities but, indeed, one of the purposes SCM sought to achieve. As Judge Timbers stated in his dissent below:

> "* * * SCM has much to gain from RCA by eliminating the other licensees. SCM's position in the market rests on the use of RCA patents. By eliminating the licensees, SCM places itself in a position vis-a-vis RCA where it can make its own demands with respect to use of the patents. In fact, SCM did make such demands; and despite Judge McLean's conclusion that RCA did not succumb to these demands, RCA should not be precluded from seeking injunctive relief. The protection of the antitrust laws should not be withheld from a patentee where it is endeavoring to maintain a system of non-exclusive licensing." (13a)

Under the common law, in the case of intentional torts, a "person who does *any* tortious act for the *purpose* of causing harm to another * * * or to the pecuniary interests of another is liable to the other for such harm if it results",

Restatement, Torts, § 870 at 405 (1939) (Emphasis added). Comment *b* to that section further states that:

> "It is immaterial to liability under the rule stated in this Section whether the tortious act is directed towards the person subsequently harmed or towards a third person. Thus one who uses tortious means directed towards a third person for the purpose of depriving another of the opportunity of dealing with or obtaining property or services from such third person or other persons is subject to liability to the other for the harm thereby caused him as well as to the third person." (at 406)

Here, of course, SCM's acts were intentional and the injury to RCA was both foreseeable and intended. The fact that SCM's competitors might also sue SCM hardly furnishes a reason to bar RCA's suit, since RCA was also an intended victim of SCM's activities. A conspiracy, or a scheme of monopolization, may have a variety of objects and victims, and since RCA was one of the victims of SCM's monopolization, it ought not to matter that there also were other victims.

The Court of Appeals below thought that only SCM's competitors ought to be permitted to sue. However, the example it pointed to, *Advance Business Systems & Supply Co.* v. *SCM Corp.*, 287 F. Supp. 143 (D. Md. 1968), only emphasizes the arbitrary nature of the "incidental injury" doctrine. Advance Business Systems operated only in Maryland, and although it had shown that SCM had engaged in a number of illegal practices, the District Court, following the same type of approach as was applied below, held that since Advance's business was limited to Maryland, it was only entitled to an injunction against SCM continuing its illegal activities in Maryland, 287 F. Supp. at 159-160.

As has been noted, except for the royalties SCM itself withheld from RCA, RCA seeks only injunctive relief, and does not seek to recover damages for the royalties it lost because of what SCM did to its competitors. As a result of the restrictive approach taken below and in the *Advance Business Systems* case, however, SCM will remain free to continue its illegal activities, except in Maryland. In a market where one nation-wide company is confronted with local competitors, that "salami" approach means that each local market may continue to be restrained until the local competitor brings suit. Given the still substantial burdens a private litigant must bear, the practical effect will be to leave SCM's activities largely unaffected by the antitrust laws.

It is difficult to see how such a result can be justified; in fact, RCA, because it developed the Electrofax market and is committed to encouraging open competition, would seem to be the ideal party to seek nation-wide injunctive relief. In addition, unlike perhaps one of SCM's local competitors, RCA will have a very real interest in presenting evidence of SCM's activities throughout the country. Certainly SCM cannot press any countervailing "interest" in remaining free to continue practices which, on the allegations deemed admitted, are clearly illegal.

We will readily concede that in some circumstances there may well be good reason to deny recovery of damages to a private plaintiff, as when recovery by another injured party would benefit the plaintiff; for example, a stockholder ought not be able to sue when it is his corporation which has been injured, since the corporation's recovery will make the stockholder whole. See, *e.g., Peter* v. *Western Newspaper Union,* 200 F.2d 867 (5th Cir. 1953). We submit, however, that when only injuctive relief is sought, the only inquiry should be whether the party seeking relief has a sufficiently real economic interest to ensure that the litigation is not

frivolous, and whether permitting the suit will promote an important public interest.

This action meets both tests.

II

SCM's Punishment of RCA for Its Refusal to Conspire Directly Injured RCA

Finally, we turn to the lower courts' holding that RCA cannot recover for the injury which SCM inflicted upon RCA for its refusal to cooperate in SCM's continued monopolization. As has been noted, SCM demanded that RCA grant SCM a discriminatory advantage over its remaining competitors, threatening to cut off all royalties if RCA did not agree. Because SCM had already captured a dominant position in the market and was RCA's prime licensee, this threat carried particular weight.[10] RCA did not agree, however, and SCM thereupon ceased its royalty payments and instituted this suit.

It is established law that while an individual business generally has the right unilaterally to refuse to deal, that right "is neither absolute nor exempt from regulation. Its exercise as a purposeful means of monopolizing interstate commerce is prohibited by the Sherman Act." *Lorain Journal Co.* v. *United States* 342 U. S. 143, 155 (1951). As the Court put it in *Times-Picayune Publishing Co.* v. *United*

[10]Although both the District Court and the Court of Appeals were apparently impressed with the fact that a number of persons had taken licenses from RCA, it remains admitted on SCM's motion to dismiss that SCM is the dominant manufacturer and seller of Electrofax machines and the dominant seller of Electrofax paper. A head count of the persons who took licenses, whether or not they practiced the inventions of the patents and paid royalties, and regardless of the amount of their sales, can hardly defeat admitted allegations with respect to SCM's market positions.

States, 345 U. S. 594, 625 (1953), "[i]f accompanied by unlawful conduct or agreement, or conceived in monopolistic purpose or market control, even individual sellers' refusals to deal have transgressed the Act."

It is also generally recognized that one is injured by being put to the choice of either joining an illegal scheme or having one's beneficial economic relations terminated. As the court stated in *Dairy Foods Inc.* v. *Dairy Maid-Products Coop.,* 297 F. 2d 805, 808, 809 (7th Cir. 1961), "[t]he injury is the necessity that defendant make a choice among alternatives each of which has an adverse economic or financial impact on its instant milk business. * * * To place a person in such a situation is an injury to his business." The Court also remarked that

> "The congressional enactments here involved were designed to afford a legal right to engage in business free from conspiratorial compulsion such as here alleged. A violation of that right is a legal injury to the business adversely affected."

Similarly, it is established that a person (*e.g.* a small retailer) who is cut off for refusing to adhere to an illegal scheme (*e.g.,* an unlawful tying or resale price maintenance arrangement) can recover the damages resulting from the termination, even if that termination did not *itself* unreasonably restrain trade. See, *e.g., Osborn* v. *Sinclair Refining Co.,* 324 F.2d 566 (4th Cir. 1963); *Simpson* v. *Union Oil Co. of California,* 377 U.S. 13 (1964).

These rules are so obvious that they should not need repetition. We have set them forth, however, because the lower courts in this case disregarded them and, by means of a wordplay, created a new type of immunity for refusals to deal pursuant to an attempted monopolization.

The Court of Appeals thus referred to RCA's allegations as only a "series of abortive demands and counter-demands" (5a) and adopted the lower court's finding that SCM cut off its royalties payments to RCA "because [SCM] challenged its patents", and that "[a]s to that injury, [SCM's] violations and its alleged monopolistic position are irrelevant" (9a).

It is difficult to comprehend this remark by the Court of Appeals, let alone justify it. With equal logic, one could say that a small retailer whose lease is terminated by his supplier because he refused to maintain resale prices has only been injured "because" the supplier terminated his lease, and that as to that injury, the resale price maintenance scheme is "irrelevant". This type of holding is, we submit, a mere play with labels.

What is clear, and not a matter of labeling, is that SCM threatened to cut off royalty payments if RCA did not assist SCM in sewing up the market, and when RCA refused to do so, SCM proceeded to do precisely what it had threatened.

The lesson of the lower courts' holdings is clear: henceforth any person who is engaged in a course of monopolization may, with impunity, put others to the choice of either cooperating in the monopolization or suffering retribution. If they choose to cooperate, all is well; if they decide instead to obey the antitrust laws, they are free game.

This incentive to conspiracy is heightened by the Court's rulings in *Albrecht* v. *Herald Co.*, 390 U. S. 145, 150 (1968) and *Perma Life Mufflers* v. *International Parts Corp.*, 392 U. S. 134 (1968) that a party who is forced to join in an illegal agreement may bring suit for damages, since, at the least, he may claim a combination between himself and the defendant. If, in short, RCA had joined with SCM, it would have thereby invested itself with a treble damage

action under Section 1 of the Sherman Act; upon later withdrawing from the combination (and, presumably, having its royalties then cut off), RCA could recover not only the losses it suffered while a party to the combination but also the losses it suffered as punishment for withdrawing.

Under the rule laid down by the lower courts in this case, however, the party who refuses at the outset to join in attempted monopolization, and who pays dearly for such quixotic virtue, is beyond the protection of the antitrust laws.[11]

We submit that before so curious a rule becomes established, it deserves the attention of this Court.

Although perhaps not clearly articulated, the lower courts also seem to have felt that the possibility that RCA's patents will be held valid and infringed, and thus that SCM will have to resume royalty payments as well as paying damages for its infringing activities, somehow removes the sting from SCM's termination of royalties. The fact that RCA has remedies under the patent laws does not, however, affect its remedies under the antitrust laws. Furthermore, as Judge Timbers recognized in his dissent, SCM has used the period since termination, during which it has paid no royalties, to further eliminate and discourage other licensees with the result that even if RCA's patents are sustained, it will still be faced with a stunted market with one dominant licensee. The only relief from that situation is under the antitrust laws, not the patent laws.

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[11]Parenthetically, we note that both lower courts chided RCA for using such phrases as "attempt to monopolize", "tend to create a monopoly", "dominant seller", "dominant position" and "monopolist". Those are, however, words of definite meaning, and their presence in a pleading under the antitrust laws ought not to cause surprise, particularly in light of the detail of RCA's counterclaim (1c-17c).

CONCLUSION

This case presents issues of general importance to the vitality of the private antitrust suit. One of those issues, the doctrine of "incidental" injury, has never been passed upon by this Court. The other issue involves the extent to which one who refuses to join a plan of monopolization is "free game"; on that issue, we submit, the lower courts have disregarded this Court's teachings.

The writ of certiorari should issue.

Respectfully submitted,

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April 9, 1969

Appendix "A"

UNITED STATES COURT OF APPEALS

FOR THE SECOND CIRCUIT

No. 351—September Term, 1967.

(Argued June 17, 1968 Decided January 9, 1969.)

Docket No. 31967

SCM CORPORATION,

Plaintiff-Appellee,

—against—

RADIO CORPORATION OF AMERICA,

Defendant-Appellant.

Before:

MOORE and HAYS, *Circuit Judges;*
TIMBERS,* *District Judge.*

* Chief Judge, District of Connecticut, sitting by designation.

Appendix "A"

MOORE, *Circuit Judge*:

Radio Corporation of America (RCA), defendant, appeals from a judgment dismissing its second counterclaim against SCM Corporation (SCM), plaintiff. Upon motion on the pleadings to dismiss the second counterclaim and to strike the second affirmative defense, the counterclaim was dismissed and the defense was stricken. Judgment was entered pursuant to Rule 54(b), F. R. Civ. Proc. Some background of the pleadings is essential to a determination of this appeal.

The Second Amended Complaint

SCM's "First Cause of Action" is "for a declaratory judgment that United States Patents Nos. 2,922,883, 3,052,539, and 3,052,540" owned by RCA are invalid and not infringed by SCM. The patents relate to electrostatic photocopy machines and supplies therefor including the paper used herein. SCM manufactures and sells such machines and paper. RCA claims that this constitutes an infringement of its patents.

The "Second Cause of Action" is for restitution to SCM of royalties paid to RCA under the patent license agreement covering Patent No. 3,052,539 ('539) between March 1, 1963 and April 4, 1964 because of alleged fraudulent representations by RCA.

The "Third Cause of Action" is for violation of §2 of the Sherman Act in that RCA allegedly has illegally monopolized, and has attempted to illegally monopolize, interstate

commerce in the electrostatic photocopy field by asserting its Patent '539 in a licensing program, which patent was obtained by fraud.

To these causes of action, RCA filed denials, in substance, and alleged two affirmative defenses to the second and third causes of action, namely, failure to state a claim and unclean hands. Two counterclaims are pleaded, the first, seeking an injunction against continued infringement by SCM, the second, demanding treble damages under §§4, 12 and 16 of the Clayton Act, §2 of the Sherman Act, §3 of the Clayton Act, and an injunction against the practices complained of.

The trial, presumably on SCM's three causes of action and RCA's first counterclaim, has been concluded and is pending undecided. Decision therein should determine—at least initially—the validity or invalidity of the patents and such relief, including injunctive, if any, as should flow therefrom. At this juncture, the second counterclaim stands as a separate antitrust suit and must be so considered because as the court below has said: "that the defendant has asserted its antitrust charges in a counterclaim rather than in an independent action is immaterial, as far as the legal sufficiency of those charges is concerned."

The Second Counterclaim

RCA alleges that it is the owner of the three patents referred to as the "Electrofax patents"; that it is "the sole lawful monopolist of the Electrofax process"; that it has never engaged in the manufacture or sale of Electrofax machines or paper, but has chosen instead to offer and grant publicly non-exclusive licenses under its patents; that it received royalties measured by the use of the licenses; and that it has granted more than 150 licenses of which 63 are now in effect.

Appendix "A"

[These figures must be qualified by a stipulation between the parties for "the purposes of defendant's appeal" that during the years 1954 through 1962, RCA had as many as 133 licenses under its Electrofax patents and applications therefor and that during said period "not more than four of such licensees operated under their licenses and paid any royalties to RCA"; that during 1962 (when '539 was issued), RCA had 20 licensees, 4 of which operated under, and paid royalties pursuant to, licenses and 16 did not operate or incur royalty obligations; and that in 1965, when this action was begun, RCA had 40 licensees of which 26 paid royalties and 14 did not operate or incur any royalty obligation.]

Under *"The Offenses Charged,"* RCA specified that beginning in 1959, SCM sold Electrofax machines on the unlawful condition that the purchaser not buy or use goods of an SCM competitor in violation of §3 of the Clayton Act (Compl., par. 53); that prior to 1959 SCM hired, and induced breach of contract by, personnel of its prospective competitors and licensees, which employees were knowledgeable in the Electrofax field and that SCM in 1961 acquired the assets of an RCA licensee (par. 54); that by 1963 SCM had obtained 40% of the sales of Electrofax machines and 100% of Electrofax liquid copiers, thus acquiring a monopoly (par. 55); that 58% of the Electrofax liquid copiers in use are SCM manufactured (par. 56); that SCM does not manufacture Electrofax paper but purchases it from RCA licensees (par. 57); that SCM has required its lessees to deal with it on its terms as to service, purchase of paper from competitors and by exacting restrictive covenants from employees (par. 58); that SCM is the principal and dominant seller of Electrofax paper in the United States (par. 59); and that SCM has more than a 300% mark-up in its sales of Electrofax paper (par. 60).

Appendix "A"

Under the sub-head "With Respect to RCA," RCA, after asserting in a conclusory manner SCM's actions as a "monopolist" so as to "confront RCA with a market dominated by only one possible licensee of its patents," sets forth a series of abortive demands and counter-demands with respect to the short-lived license agreement (Patent '539) between RCA and SCM, culminating in termination and this suit. Money damages (trebled), legal expenses and injunctive relief are sought (pars. 61-74).

The Opinion Below

In analyzing section 4 of the Clayton Act, the district court found as to damage that the key words of the statute were "by reason of." The court then held that RCA's actual injury resulted from the loss of royalties which it would have received but for SCM's termination of the license; that there was no causal connection betwen SCM's alleged monopoly and the loss of royalties; and that whether or not SCM can manufacture Electrofax machines with impunity without a license must depend on the outcome of the patent litigation. The court concluded that the second counterclaim does not allege facts sufficient to give RCA standing to sue because of Sherman and Clayton Act violations either for treble damages or for injunctive relief. Accordingly, the court dismissed the second counterclaim.

At the heart of all the claims and counterclaims is the question of patent validity. If the patents are invalid, the claims based thereon must fail and the resultant damages will be calculated in the light of such findings. If, on the other hand, the patents are valid and SCM has infringed, different consequences will naturally follow.

Upon the facts pleaded (and assumed to be true) and as a matter of law, the court concluded that "the second counterclaim does not allege facts which confer upon defen-

dant standing to sue for plaintiff's alleged violations of the Sherman Act and the Clayton Act, either for treble damages or for injunctive relief." The court relied heavily upon the doctrine of "direct," not "incidental" injury expounded in this circuit in *Productive Inventions, Inc.* v. *Trico Products Corp.*, 224 F. 2d 678 (1955). In that case, the patentee, Productive Inventions, had granted an exclusive license to a company (Anco) to manufacture and sell windshield wipers under its patents. Productive Inventions' sole interest in the patents was limited, as is RCA's interest here, to the right to receive royalties. Productive Inventions brought suit against Trico, a competitor of its licensee (Anco), claiming that it (Productive Inventions) had suffered a direct injury—loss of royalties—as a result of Trico's demands that purchasers of its products not deal with Trico's competitors, including Anco, thus reducing Anco's royalty payments to Productive Inventions. This court, posed the question: "Is a patentee who has granted to another an exclusive license for the term of the patent, upon a royalty basis, a 'person * * * injured in his business or property' (within the meaning of Section 4 of the Clayton Act) so as to enable him to recover treble damages for loss of royalties on sales that might have been made by its licensee save for the anti-trust violations of defendant?" This court held that he is not. Specifically, the court said that the "appellant [Productive Inventions] has no standing under the anti-trust laws to complain of the incidental loss of royalties by activities of Trico, not directed at it" (p. 680). The court, however, conceded that "No hard and fast rule can be laid down in these situations as the line between direct and incidental damage is not always definable with clarity."

Applying the principle enunciated in *Productive Inventions,* the district court concluded "Assuming the factual

allegations of the counterclaim to be true, the victims of plaintiff's antitrust violations, the people in the 'target area,' are plaintiff's competitors, the manufacturers of Electrofax machines and paper. Defendant, as a patent owner, no matter how important its patents may be, is only incidentally affected. The injury which it has suffered because its 63 licensees have suffered is not, under the authorities, an injury which gives it standing to sue." An *a fortiori* situation would seem to be presented here where RCA still has 63 licensees whereas Productive Inventions had only one.

The nature of the injunction sought by RCA is revealing because it indicates the proper territory for an antitrust suit, if any be justified, and conversely, shows that such a suit on the facts alleged, does not lie between RCA and SCM. The acts sought to be enjoined relate to alleged impositions placed by SCM upon SCM's customers, suppliers or lessees. Insofar as RCA seeks to protect itself from allegedly illegal demands or solicitations by SCM, injunction upon the facts pleaded is scarcely the remedy. Thus, the proper parties to any suit under the antitrust laws would appear to be SCM and its customers, suppliers or lessees. If any of this group were injured by SCM's exactions, assuming that they contravened the law, the suit would then be by a party directly injured "by reason of" such violation.

In this case, the best antitrust suit illustration is not hypothetical, but is to be found in the recently decided case of *Advance Business Systems* v. *SCM Corp.*, 287 F. Supp. 143, D. Md. 1968. This was a private antitrust suit against SCM wherein the plaintiff, engaged in the sale in the State of Maryland of paper and supplies for use in SCM and other copying machines, complained that SCM by unfair and restrictive trade practices (not unlike the charges here) had caused it injury by reason of violations of §§1, 2 of the

Sherman Act, and §3 of the Clayton Act. The Court in a lengthy opinion carefully and thoroughly analyzed the facts as related to the issues including "the relevant market." No purpose would be served by trying to transpose the facts of that case to the allegations here. The Court found in favor of SCM on many issues; against it on some. The point of the case is that it illustrates the district court's comment here that, assuming the factual allegations to be true, "the victims of plaintiff's antitrust violations, the people in the 'target area,' are plaintiff's competitors, the manufacturers of Electrofax machines and paper."

The district court has recognized that RCA by way of counterclaim may invoke the protection of the antitrust laws. This recognition, however, does not mean that the conclusory allegations presented constitute a valid antitrust action. The counterclaim is replete with charges that SCM "attempted unlawfully to monopolize," that "the effect of which [acts vis-a-vis SCM's customers] may be to tend to create a monopoly," that SCM is "the principal and dominant seller," that SCM "has unlawfully acquired a dominant position in the markets," and that SCM "attempted to and has acted as a monopolist." These are very impressive conclusory charges and must be examined in the light of the modern notice-pleading of the day. But even this enlightened renunciation of "old-fashioned" pleading ought to permit the query: notice of what?

The answer is to be found in RCA's allegation that "As a result of the offenses alleged above, RCA [as the lawful owner of the patents] has been immediately injured * * *, in that RCA has been wilfully and maliciously deprived of royalties lawfully due * * * [under Patent '539] and has been put to the burden and expense of defending this law suit." Injunctive relief is sought on the theory that RCA has been prevented from enjoying the full benefits of its

patents and, in effect, would have prospered "but for" SCM's acts.

RCA contends that SCM's monopolization "if successful" will deprive it of the fruits of licensing, that "even if SCM must pay some royalty, if it is the only available licensee," SCM might insist on a smaller royalty, that "if that event comes to pass, RCA would be 'directly' injured"; and that RCA seeks only to avoid threatened loss "if the threat materializes" (RCA reply brief).

After searching for factual allegations which might bring this counterclaim within the purview of the antitrust laws, it is difficult to escape the conclusions reached by the district court: (1) "The injury which it [RCA] has suffered because its 63 licensees have suffered is not, under the authorities, an injury which gives it standing to sue"; and (2) "The other injury which it has sustained, its loss of royalties and its litigation expense, is not an injury which it has sustained by reason of plaintiff's antitrust violations. This is an injury which defendant has suffered because plaintiff challenged its patents, whether justifiably or not remains to be seen. As to that injury, plaintiff's violations and its alleged monopolistic position are irrelevant."

RCA relies on such cases as *Osborn* v. *Sinclair Refining Co.*, 324 F. 2d 566 (4th Cir., 1963); *Dairy Foods Incorporated* v. *Dairy Maid Products Corp.*, 297 F. 2d 805 (7th Cir., 1961); *Jones Knitting Corp.* v. *Morgan*, 361 F. 2d 451 (3rd Cir., 1966); *Perma Mufflers* v. *Int'l Parts Corp.*, 392 U. S. 134 (1968); *Congress Building Corp.* v. *Loew's Inc.*, 246 F. 2d 587 (7th Cir., 1957); *Hoopes* v. *Union Oil Co. of California*, 374 F. 2d 480 (9th Cir., 1967); *So. Carolina Council of Milk Producers, Inc.* v. *Newton*, 360 F. 2d 414 (4th Cir.), *cert. denied*, 385 U. S. 934 (1966); *Sanitary Milk Producers* v. *Bergjans Farm Dairy, Inc.*, 368 F. 2d

679 (8th Cir., 1966); and *Standard Oil Co. of Calif.* v. *Perkins,* 396 F. 2d 809 (9th Cir., 1967).

As is to be expected, each of these cases presented its own particular set of facts upon which decision had to be based. *Osborn* involved the cancellation of Osborn's lease and a refusal by Sinclair to deal because Osborn refused to abide by an unlawful arrangement between Sinclair and its dealers (primarily tie-in demands). *Dairy Foods* procedurally was quite analogous—a suit for patent infringement, counterclaims for a declaration as to patent validity, and a treble-damage antitrust claim. There were allegations of the unlawful pooling of patents by the plaintiff and others, coercion to accept illegal licenses under threat of infringement suits, and the use of such suits to place Dairy Maid under "conspiratorial compulsion."

Jones Knitting was fundamentally a patent infringement suit, but the plaintiffs had formed a "group" not only to challenge the validity of the Morgan patent, but also to engage in a "group boycott" in violation of §1 of the Sherman Act. When the Court of Appeals reversed a determination of patent invalidity, naturally the remand required an assessment of such damages as resulted from the boycott.

Perma Mufflers, as said in the majority (Mr. Justice Black) opinion, presented as the "principal question" whether plaintiffs were barred by the doctrine of *in pari delicto.* The Court granted certiorari because the lower court rulings "seemed to threaten the effectiveness of the private action as a vital means for enforcing the antitrust policy of the United States" (392 U. S. 134, 136). The Court held that the *in pari delicto* doctrine was not a defense, but did not write the "by reason of" clause out of the statute. Mr. Justice White in his concurring opinion specifically stated that not only a violation must be shown

but also under section 4 a plaintiff must establish "that his [defendant's] conduct caused the damages alleged in the complaint" (p. 143). Justices Fortas and Marshall, although concurring, took somewhat different positions as to *in pari delicto* as did Justices Harlan and Stewart in Mr. Justice Harlan's concurring and dissenting opinion. The *Perma Mufflers* decision is quite inapplicable here.

In *South Carolina Council of Milk Producers, Inc.* v. *Newton,* 360 F. 2d 414 (4th Cir., 1966), the court recognized the principles of *Productive Inventions* and that "The pivot of decision presently is whether the defendants' asserted conduct was the proximate cause of the plaintiffs' asserted injury" (p. 419), but concluded that the complaint stated sufficient facts to require a trial. There, although there were no direct transactions between plaintiffs and defendants, the defendants allegedly conspired to sell processed milk below cost which seriously affected the plaintiffs' raw milk sales and prices.

Sanitary Milk Producers v. *Bergjans Farm Dairy, Inc.,* 368 F. 2d 679 (8th Cir., 1966) involved the standing to sue of two of the six plaintiffs. The court found as a matter of fact (there had been a jury trial) that there was sufficient proof of direct injury and the necessary causal connection between injury and the defendants' antitrust violations.

In *Hoopes* v. *Union Oil Company of California,* 374 F. 2d 480 (9th Cir., 1967), the court found that the plaintiffs' injuries were "direct" and not "consequential," "secondary," or "remote." Thus, it held that Union's allegedly illegal conduct was "aimed" at appellants and that appellants were within the "target area."

The Supreme Court has said that "the purposes of the antitrust laws are best served by insuring that the private action will be an ever-present threat to deter anyone contemplating business behavior in violation of the antitrust

laws" (*Perma Mufflers*, p. 139). But the "private action" is created by section 4 of the Clayton Act, 15 U. S. C. §15. Standing to sue was not given by Congress to any and every citizen who, motivated by public spirit or possibly some baser reason, would set himself up as a watchdog of business behavior. Congress properly bestowed the right to sue only on such persons as might be injured in their business or property *by reason of* anything forbidden in the antitrust laws.

RCA is not foreclosed from seeking treble damages or injunctive relief if it can plead, and establish by proof, the causation required by the statute. All that the district court decided was that "the second counterclaim does not allege facts which confer upon defendant standing to sue for plaintiffs' alleged violations of the Sherman Act and the Clayton Act." This is all that we affirm.

Affirmed.

TIMBERS, *District Judge* (dissenting):

I dissent.

It is quite true that a distinction has been drawn limiting the right to bring actions under the antitrust laws to those who have been directly, as opposed to indirectly, injured by anticompetitive activity. But *Productive Inventions, Inc.* v. *Trico Products Corp.*, 224 F. 2d 678 (2 Cir. 1955), *cert. denied*, 350 U. S. 936 (1956), recognized that no hard and fast rule could be laid down, and the decision was specifically limited to the facts there presented. Furthermore, the very validity of *Productive Inventions* has been cast in some doubt by comments of the Supreme Court in such cases as *Radiant Burners, Inc.* v. *Peoples Gas Light & Coke Co.*, 364 U. S. 656, 660 (1961), and *Radovich* v. *National Football League*, 352 U. S. 445, 454 (1957). See *Data Digests, Inc.* v. *Standard & Poor's Corp.*, 43 F. R. D. 386 (S. D. N. Y. 1967) (Weinfeld, *J.*).

With this in mind, I think a viable distinction exists between the facts as stated by this Court in *Productive Inventions* and the facts here.

In *Productive Inventions* the relevant market apparently was assumed to be windshield wipers and their components. Trico's participation in that market was by virtue of its own devices and patents; while by exerting monopoly power over appellant's licensee, Trico might have eliminated appellant as a competing patent licensor, there is no indication that this was the thrust of appellant's claim. Therefore, viewing appellant's claim as simply one arising out of a possible loss of royalties, we concluded that Trico's activity was not aimed at appellant and appellant could not maintain an action.

In the instant case, on the other hand, RCA alleges the relevant market and submarkets to be limited to Electrofax machines and paper, areas covered by its patents. Assuming as we must that these market definitions are correct and also assuming the validity of the patents, then SCM has much to gain from RCA by eliminating the other licensees. SCM's position in the market rests on the use of RCA patents. By eliminating the licensees, SCM places itself in a position vis-a-vis RCA where it can make its own demands with respect to use of the patents. In fact, SCM did make such demands; and despite Judge McLean's conclusion that RCA did not succumb to these demands, RCA should not be precluded from seeking injunctive relief. The protection of the antitrust laws should not be withheld from a patentee where it is endeavoring to maintain a system of non-exclusive licensing. While it may be true that a misbehaving licensee such as SCM may be eliminated by the termination of the licensing agreement, the patentee should not be put to the choice of such termination or the alternative of assenting to the licensee's demands. It is an untenable choice

and one not in the public interest. See *Dairy Foods, Inc.* v. *Dairy Maid Products Corp.*, 297 F. 2d 805 (7 Cir. 1961).

All of the cases relied on in *Productive Inventions* were brought by unions, shareholders, creditors, directors, officers or landlords alleging antitrust violations against their employers, companies or tenants. In not one of these cases was it alleged that the anticompetitive action was taken with the specific aim of harming the plaintiffs. Indeed the defendants in these suits would have no reason to act against the plaintiffs.

The cases after *Productive Inventions* which have cited it with approval have been of a similar nature. All have involved antitrust activity which, while perhaps resulting in real injury to the plaintiffs, was not carried on for the purpose of injuring them. See, e.g., *Bookout* v. *Schine Chain Theatres, Inc.*, 253 F. 2d 292 (2 Cir. 1958).

SCM asserts that RCA is at best a supplier to its licensees of immunity from patent infringement suits which might be brought by itself, and then cites *Productive Inventions, Volasco Products Co.* v. *Lloyd A. Fry Roofing Co.*, 308 F. 2d 383, 393-95 (6 Cir. 1962), *cert. denied*, 372 U. S. 907 (1963), and *Snow Crest Beverages, Inc.* v. *Recipe Foods, Inc.*, 147 F. Supp. 907 (D. Mass. 1956), for the proposition that suppliers cannot bring actions to recover for injuries sustained through antitrust activities against those they supply. But as with *Productive Inventions*, the suppliers in the latter two cases were not the intended victims of the anticompetitive activity of the defendants. If RCA is but a supplier, it is also the supplier to SCM, and it is for the purpose of altering their relationship, to the benefit of SCM and to the detriment of RCA, that SCM has acted to deter competition.

Therefore, to me the conclusion is inescapable that RCA suffered sufficient injury even prior to SCM's termination

of the licensing agreement and institution of the action to permit RCA to maintain its claim for injunctive relief.

I would also hold that Judge McLean erred in determining that RCA's loss of royalties and its litigation expenses were not, as a matter of law, a result of SCM's anticompetitive activities. Admittedly there are many problems in this respect, particularly the obvious desirability of not discouraging challenges to claimed patent rights where appropriate. See *Walker Process Equipment, Inc.* v. *Food Machinery & Chemical Corp.*, 382 U. S. 172 (1965). Nevertheless, I fail to see why the termination of a licensing agreement and institution of a patent suit may not be part of an anticompetitive plan despite the seeming "cut-off-your-nose-to-spite-your-face" result upon which Judge McLean focused. For example, RCA in its brief points out that SCM has used the period since termination of the agreement, during which it has paid no royalties, further to eliminate and discourage other licensees. Therefore, where a party can show that such action was part of a plan to monopolize, and not simply an assertion of claimed legal rights, that party should be entitled to recover whatever additional damages the antitrust laws provide over what the patent laws permit. I would therefore leave appellant to its proof on this issue.

For the reasons stated, I would reverse and remand for trial on RCA's antitrust counterclaim in the pending patent suit.[1]

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[1] Since the only issue on this appeal is the correctness of the District Court's dismissal before trial of RCA's second counterclaim, I recognize the anomaly of our ruling on that issue now that the trial of the rest of the case, absent the second counterclaim, has been concluded. N. Y. L. J., Oct. 9, 1968, p. 21, col. 1. For whatever reason, counsel proceeded with the trial while this appeal was pending. The majority opinion is addressed to the record as it stood when the appeal was argued on June 17, 1968, as likewise is this dissent.

Appendix "B"

(291-311)

UNITED STATES DISTRICT COURT

SOUTHERN DISTRICT OF NEW YORK

[SAME TITLE]

McLEAN, D.J.

The second amended complaint in this action contains three counts. The first seeks a declaratory judgment that patents No. 2,922,883, 3,052,539 and 3,052,540, owned by defendant, relating to electrostatic photocopy machines and coated copy paper used therewith, are invalid and not infringed by plaintiff. In addition to allegations of invalidity which are common to all three patents, *i.e.*, lack of invention, obviousness, lack of definiteness, and misuse by defendant, the complaint alleges with respect to patent

No. 3,052,539 that it was procured by defendant by willful fraud upon the Patent Office. Defendant's answer alleges a first counterclaim seeking a determination that all three patents are valid and that plaintiff has infringed them. Plaintiff's first count and defendant's first counterclaim are not involved on these motions.

Plaintiff's second and third counts relate only to patent No. 3,052,539. The second count alleges in substance that defendant induced plaintiff to accept a license under this patent, a license which plaintiff later terminated, by threatening to sue plaintiff for infringement and by fraudulently "concealing from plaintiff material facts" and "making material misrepresentations of fact." The complaint does not state what the material facts were that defendant allegedly concealed and misrepresented. On the strength of these allegations, plaintiff seeks restitution of the royalties, amounting to something in excess of $465,000, which it paid to defendant under the license prior to its termination.

Jurisdiction of this court over this count is alleged to rest on 28 U.S.C. § 1332, the diversity of citizenship section. In its answer defendant denies jurisdiction. Since the complaint appears to allege that both plaintiff and defendant are New York citizens, the court is perplexed as to what plaintiff's theory of jurisdiction may be. Although the point has not been raised on this motion, the court requests further information on it from plaintiff, for if in fact the court does not have jurisdiction of this count, the court is duty bound to dismiss it.

The third count is an antitrust claim of the type inspired by *Walker Process Equipment, Inc.* v. *Food Machinery & Chemical Corp.*, 382 U.S. 172 (1965). The complaint charges

that defendant has "monopolized interstate commerce in the electrostatic photocopy field" by asserting its patent No. 3,052,539 in a licensing program, despite the fact that defendant procured the patent by means of willful fraud upon the Patent Office. It charges that in its licensing program defendant has fraudulently concealed and fraudulently misrepresented "the same or similar" facts which defendant concealed from and misrepresented to the Patent Office. It alleges that plaintiff has been damaged by this monopoly in that plaintiff paid royalties to defendant prior to plaintiff's termination of the license, and in that plaintiff has incurred expense in maintaining this action. The complaint seeks recovery of "treble damages" by which plaintiff apparently means three times the royalties paid and literally, although perhaps this was not intended, three times its attorneys' fees.

Defendant has pleaded as an affirmative defense to the second and third count (not to the first) of the complaint that "plaintiff is guilty of unclean hands for the reasons set forth hereinafter in RCA's Second Counterclaim." Defendant's second counterclaim is an action brought under Sections 4 and 16 of the Clayton Act (15 U.S.C. §§ 15, 26). It charges that plaintiff has violated Section 2 of the Sherman Act and Section 3 of the Clayton Act.

Plaintiff has moved to strike the affirmative defense and to dismiss the second counterclaim on the ground that each is insufficient in law. In the alternative, plaintiff has moved under Rule 42(b) for a separate trial of certain of the issues in this complex litigation.

Since defendant's affirmative defense of "unclean hands" merely incorporates by reference the allegations of the second counterclaim, it is necessary, in determining the

sufficiency of the defense as well as of the counterclaim, to examine these allegations with care. They cover sixteen pages. They are ingenious as well as lengthy. Of course, on this motion these allegations, in so far as they purport to allege facts, must be assumed to be true. They may be briefly summarized as follows:

RCA is the originator of the Electrofax process, is the owner of the three patents above mentioned relating to the process and to the machines and coated papers which carry it out, and by reason of that ownership, is "the sole lawful monopolist" of that process. RCA does not manufacture either the machines or the paper. It has offered non-exclusive licenses under its patents to anyone, whether machine manufacturer or paper manufacturer, who wants one. It now has some 63 licenses outstanding under which it receives royalties, based upon a percentage of each licensee's selling price of the machines or paper.

The sale and leasing of machines and the sale of paper constitute a substantial part of interstate and foreign commerce. Beginning in 1959 and continuing to the present, plaintiff has monopolized a substantial part of this commerce, in violation of Section 2 of the Sherman Act. It has also leased and sold Electrofax machines on condition that the purchaser shall not buy or use goods of plaintiff's competitors, in violation of Section 3 of the Clayton Act. The monopoly has manifested itself in a variety of unlawful acts engaged in by plaintiff, including, among others, hiring away competitors' employees, some of whom were familiar with defendant's process, acquiring the assets of one of defendant's former licensees, requiring licensees of plaintiff's machines to obtain their requirements of paper from plaintiff, refusing to sell plaintiff's newest model of

machine and requiring customers to lease it, offering service contracts containing illegal "tie-in" clauses, and refusing to sell replacement parts for its machines to its competitors.

Plaintiff has thereby acquired a "dominant position" in the market. In so doing, it has made use of defendant's research and development. Plaintiff has "willfully abused" that dominant position to eliminate defendant's position as "the only lawful monopolist in the Electrofax field." It has used its dominant position "to confront RCA with a market dominated by only one possible licensee of its patents." Plaintiff has done this in the following manner:

While plaintiff was a licensee under certain claims of defendant's patent No. 3,052,539, plaintiff demanded that defendant grant it a "discriminatory" reduction in royalty rates. It also demanded, with respect to Electrofax paper, that defendant license its patents only to paper manufacturers, not to machine manufacturers such as plaintiff, and that defendant require the paper manufacturers to execute a "compulsory package license." Defendant refused to accede to these demands, whereupon plaintiff terminated its license agreement with defendant and began this action, "thereby attempting to evoke and obtain the aid of this court to implement and assist it in the furtherance of the unlawful offenses" previously alleged.

The result of all this has been that competition in the sale and leasing of machines and in the sale of paper has been restrained, and defendant has been injured in that it has been deprived of royalties "lawfully due and owing from plaintiff" and has been put to the expense of defending this action. Moreover, defendant has been "threatened with loss" in that it has been prevented from making li-

cense agreements with persons who, but for plaintiff's behavior, would have gone into the Electrofax business and would have taken licenses from defendant, and defendant has been prevented from enjoying the full benefit of its patents in that, because of plaintiff's behavior, defendant's licensees have been deterred from promoting defendant's invention as they otherwise would have.

The relief asked is an injunction and damages "in excess of $1,000,000" and that these damages be trebled. Here again, as in the case of plaintiff's complaint, defendant appears to be seeking recovery of three times its attorneys' fees.

In determining the sufficiency of defendant's affirmative defense and counterclaim, it will be helpful to consider the counterclaim first. Of course, the fact that defendant has asserted its antitrust charges in a counterclaim rather than in an independent action is immaterial, as far as the legal sufficiency of those charges is concerned.

Section 4 of the Clayton Act (15 U.S.C. § 15) provides that a treble damage action may be maintained by "any person who shall be injured in his business or property by reason of anything forbidden in the antitrust laws." Section 16 of the Clayton Act (15 U.S.C. § 26) provides that any person may sue for injunctive relief "against threatened loss or damage by a violation of the antitrust laws." Neither party claims that the test of standing to sue for injunctive relief differs from the test of standing to sue for treble damages. I shall assume that the question is the same, regardless of the type of relief requested, and that the inclusion of a prayer for injunctive relief in the present pleading does not differentiate this case from those decided cases which are concerned primarily with treble damage actions.

Appendix "B"

The question is whether defendant, on the allegations of its counterclaim, has been "injured in" its "business or property by reason of" plaintiff's violation of the antitrust laws, within the meaning of Section 4 of the Act. It is at once apparent that the injuries which plaintiff has allegedly inflicted upon machine and paper manufacturers do not directly affect defendant, for defendant manufactures neither machines nor paper. And in so far as defendant has thereby been deprived of royalties which it might otherwise have received from those machine or paper manufacturers whom it has licensed under its patents, or whom it might otherwise have licensed, this injury, although perhaps very real, has been held to be too indirect to afford a patentee standing to sue for treble damages.

> *Productive Inventions, Inc.* v. *Trico Products Corp.*, 224 F.2d 678 (2d Cir. 1955);
> *Cf. Nationwide Auto Appraiser Service, Inc.* v. *Association of Casualty and Surety Companies,* Trade Reg. Rep. (1967 Trade Cas.) ¶ 72200 (10th Cir. Sept. 1, 1967).

Under this doctrine, the "threatened" loss alleged in the counterclaim is not enough to afford defendant the necessary standing.

To have standing, the injury must be "direct," not "incidental." The wrongful acts which constitute antitrust violations must be "aimed" at the complaining party. He must be within their "target area."

> *Schwartz* v. *Broadcast Music Inc.*, 180 F.Supp. 322 (S.D.N.Y. 1959);
> *Schulman* v. *Burlington Industries, Inc.*, 255 F.Supp. 847 (S.D.N.Y. 1966).

Appendix "B"

Here defendant's actual injury, as distinct from its "threatened loss," is said to be (apart from the expenses of this litigation) the loss of royalties which defendant would have received from plaintiff but for plaintiff's termination of the license. Defendant claims that this is a direct injury. But calling it direct does not make it direct. Can it fairly be said, taking defendant's allegations at their face value, that this injury occurred "by reason of" the violations of the Sherman Act and of the Clayton Act? Is there a causal connection between plaintiff's violations and defendant's damage?

The immediate cause of defendant's injury, *i.e.*, the reason why it is no longer receiving royalties, is the fact that plaintiff terminated the license. Were plaintiff's antitrust violations a proximate cause of that termination, and hence a proximate cause of defendant's loss?

Clearly the specific illegal practices allegedly engaged in by plaintiff, the hiring away of employees, the tie-in sales, and the like, did not cause it. On the contrary, while these practices were going on, the license was still in effect and defendant was still receiving royalties thereunder.

But it is alleged that these illegal practices enabled plaintiff to dominate the market. Was this dominance a proximate cause of the termination and of the loss of royalties? It is hard to see how it could have been. If defendant had yielded to plaintiff's demands and had granted plaintiff a discriminatory low royalty, perhaps it could be said that in some way, by means of its dominance, plaintiff had forced defendant to accept this loss of revenue. But defendant did not yield. Defendant was not influenced by plaintiff's market dominance. Plaintiff thereupon unilaterally terminated the license, thereby laying itself open

to a suit for infringement. Plaintiff was not able to compel defendant to agree to the termination or to waive its right to sue for infringement.

Whether or not the termination was a breach of contract is immaterial for present purposes. The point is that there seems to be no real causal connection between plaintiff's alleged monopoly and the loss of royalties which defendant has sustained.

Moreover, the termination of the license under these circumstances did not affect competition in the Electrofax industry, or enhance plaintiff's monopolistic position therein. If plaintiff had succeeded in forcing defendant to agree not to sue for infringement once the license ended, plaintiff would thereby have derived a competitive advantage over the other machine manufacturers who are licensees. But that is not what occurred.

The counterclaim, it is true, alleges in so many words that plaintiff abused its dominant position to eliminate defendant. But these words are pure conclusions. It is apparent from the pleading that defendant has not been eliminated. Whether or not plaintiff can manufacture these machines with impunity, without a license from defendant, depends upon the ultimate outcome of this patent litigation.

The only other actual injury which defendant alleges is the expense of defending this action. The action is alleged to have been begun by plaintiff in furtherance of its unlawful offenses. This again is conclusory language which will not stand up under examination. This action will not further plaintiff's unlawful offenses. It will not affect competition or enhance plaintiff's monopoly position, whatever the outcome. If defendant's patents turn out to be valid, plaintiff, by losing the action, will be no better off. If, on

the other hand, defendant's patents turn out to be invalid, plaintiff will be relieved of royalties, it is true, but so will all of defendant's other licensees.

Whether monopolist or not, plaintiff has a right to test out the validity of defendant's patents. Every litigation inevitably causes expense to those concerned. But defendant's expense in this one is not incurred by reason of plaintiff's monopoly, it is incurred by reason of the fact that both parties are litigating the validity of defendant's patents.

The court has carefully considered the cases relied upon by defendant, of which, in addition to those previously cited, *La Chapelle* v. *United Shoe Machinery Corp.*, 90 F. Supp. 721 (D. Mass. 1950), *Hoopes* v. *Union Oil Co.*, 374 F.2d 480 (9th Cir. 1967), and *Kobe Inc.* v. *Dempsey Pump Co.*, 198 F.2d 416 (10th Cir. 1952), *cert. denied*, 344 U.S. 837 (1952), are the most important. Without expanding this opinion by discussing them in detail, the court believes that none of them so closely resembles the allegations of this counterclaim as to be determinative.* The principle is clear. The difficulty, as usual, is in the application of the principle. The court cannot escape the conclu-

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* The closest case is *La Chapelle* v. *United Shoe Machinery Corp., supra,* upon which this counterclaim appears to have been patterned in some respects. The defendant there, by virtue of its monopolistic practices, so controlled the shoe machinery industry that it was virtually the only customer for plaintiff's patents and was thereby able to compel plaintiff to sell his patents to defendant at prices below their true value. The court held that such allegations gave plaintiff standing to sue. In the present case, however, plaintiff is not the sole customer for defendant's patents, for despite the fact that the counterclaim alleges that defendant is "confronted" with a market dominated by only one possible licensee, it also alleges that defendant still has 63 other licenses. Moreover, defendant here has not been forced to do anything. It still has its right to sue for infringement, a right which it is now seeking to enforce in this action.

sion that this counterclaim is a skillful attempt to turn a patent suit into an antitrust action, an attempt which does not come off.

Assuming the factual allegations of the counterclaim to be true, the victims of plaintiff's antitrust violations, the people in the "target area," are plaintiff's competitors, the manufacturers of Electrofax machines and paper. Defendant, as a patent owner, no matter how important its patents may be, is only incidentally affected. The injury which it has suffered because its 63 licensees have suffered is not, under the authorities, an injury which gives it standing to sue. The other injury which it has sustained, its loss of royalties and its litigation expense, is not an injury which it has sustained by reason of plaintiff's antitrust violations. This is an injury which defendant has suffered because plaintiff challenged its patents, whether justifiably or not remains to be seen. As to that injury, plaintiff's violations and its alleged monopolistic position are irrelevant.

It follows that the second counterclaim does not allege facts which confer upon defendant standing to sue for plaintiff's alleged violations of the Sherman Act and the Clayton Act, either for treble damages or for injunctive relief. The counterclaim thus fails to state a claim for relief.

We come now to defendant's second affirmative defense of unclean hands, which incorporates the allegations of its second counterclaim. We are not concerned here with defendant's standing to sue for plaintiff's alleged antitrust violations, but rather with whether those violations constitute a defense to the second and third count of plaintiff's complaint. The ultimate question, however, is substantially the same. Plaintiff's conduct is not a defense unless there

is a direct relationship between plaintiff's alleged misdeeds and defendant's. Did plaintiff's violations of the antitrust laws so infect plaintiff's second and third counts as to make it inequitable to grant plaintiff relief thereon? Is plaintiff attempting to charge defendant with liability for some act in which plaintiff itself participated or because of which plaintiff is at fault as well as defendant? If not, if plaintiff's offenses are merely collateral, plaintiff may still recover for defendant's wrongs, for the fact that plaintiff himself may have sinned in some other connection does not make it an outlaw, deprived of all legal rights.

Loughran v. *Loughran*, 292 U.S. 216 (1934);
Kiefer-Stewart Co. v. *Seagram & Sons*, 340 U.S. 211 (1951);
Moore v. *Mead Services Co.*, 190 F.2d 540 (10th Cir. 1951), *cert. denied*, 342 U.S. 902 (1952);
Trebuba Realty Co. v. *News Syndicate Co.*, 107 F. Supp. 595 (S.D.N.Y. 1952).

Judged by this test, the defense of unclean hands is not valid, either as to plaintiff's second or its third count. In the second count, plaintiff alleges that defendant induced plaintiff to enter into a contract with defendant, *i.e.*, a license agreement, by fraudulent representations and concealment. Obviously plaintiff did not participate in defrauding itself. There is no claim that the license agreement was illegal or that plaintiff acted improperly in accepting a license. If defendant in fact induced plaintiff to accept this license by fraud, the fact that plaintiff may have violated the antitrust laws cannot justify defendant's fraud nor can it bar plaintiff's recovery for that fraud. Plaintiff's transgressions are purely collateral.

The same is true of plaintiff's third count in which it charges that defendant is not entitled to the benefit of its

patent monopoly because it has defrauded others as well as plaintiff. If defendant has in fact misrepresented and concealed facts in promoting its licensing program, it is no excuse for it to say that plaintiff has contravened the Sherman or Clayton Acts.

In the court's opinion there is not a direct enough relationship between plaintiff's charges and defendant's countercharges to make the latter a defense to the former. Defendant's second affirmative defense is therefore insufficient in law.

In view of these conclusions, no severance of the issues is necessary. It will not unduly complicate the trial of the patent case to try at the same time the issues raised by plaintiff's second and third counts. Matters of order of proof can be considered at a pre-trial conference and set forth in a pre-trial order.

The trial will proceed, as scheduled, on March 4, 1968. A pre-trial conference will be held beginning on February 19, 1968, and continuing thereafter until completed. Plaintiff is requested to furnish the court well in advance of the pre-trial conference with a memorandum explaining plaintiff's theory of jurisdiction over the second count.

Plaintiff's motion to dismiss defendant's second counterclaim and to strike defendant's second affirmative defense is granted.

So ordered.

Dated: October 3, 1967

EDWARD C. McLEAN
U.S.D.J.

Appendix "C".

RCA's Second Counterclaim to SCM's Second Amended Complaint

RCA, by its attorney, avers:

Nature of Claim and Jurisdiction of the Court

40. This counterclaim is brought under Sections 4, 12 and 16 of the Clayton Act (15 U.S.C. §§15, 22 and 26) in order to declare, to prevent and restrain, and to recover three-fold the damages resulting from, the violation by plaintiff, as hereinafter alleged, of Section 2 of the Sherman Act (15 U.S.C. §2), and Section 3 of the Clayton Act (15 U.S.C. §14).

The Parties

41. Plaintiff, SCM, is a corporation duly organized and existing under the laws of the State of New York and has its executive offices at 410 Park Avenue, New York, New York, and is doing business in the Southern District of New York and elsewhere in the United States.

42. Defendant, RCA, is a corporation organized and existing under the laws of the State of Delaware and has its executive offices at 30 Rockefeller Plaza, New York, New York.

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RCA's Interest in Electrofax Photocopying

43. RCA is the originator and developer of an electrostatic printing process known as the Electrofax process. In the Electrofax process, as used today in office copying, a sheet of copy paper coated with a special composition comprising photoconductive zinc oxide is employed. The coated sheet is electrostatically charged by a negative corona and thereafter exposed to an image of original copy. The latent electrostatic image thus formed on the coated sheet is made visible by developing it with a positively charged toner. In the Electrofax process, image development can be accomplished with a dispersion of toner in liquid or with a dry mixture of toner and carrier particles, with distinct advantages and disadvantages dependent upon the process used. Electrofax machines utilizing a liquid developer dispersion are hereinafter referred to as "liquid copiers". Electrofax machines utilizing a dry developer mixture are hereinafter referred to as "dry copiers". The paper used in Electrofax machines, which differs in some characteristics depending upon whether it is to be used in liquid copiers or dry copiers, is hereinafter referred to as "Electrofax paper".

44. As a result of its extensive research and development with respect to the Electrofax process, RCA became and is now the owner of various United States letters patent relating to the Electrofax process, and to machines, coated papers and other supplies useful in carrying out this process, including United States Patent No. 2,922,883, issued January 26, 1960; United States Patent No. 3,052,539, issued September 4, 1962; and United States Patent No. 3,052,540, issued September 4, 1962. The aforesaid patents are referred to hereinafter as "Electrofax patents".

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45. By reason of its ownership of the various aforesaid patent rights, RCA is the sole lawful monopolist of the Electrofax process. As such, RCA was lawfully entitled to manufacture and sell Electrofax machines and Electrofax paper to the exclusion of all other persons, firms and corporations from said manufacture and sale. RCA chose to offer freely and publicly and to grant non-exclusive licenses under its various Electrofax patent rights to all persons, firms and corporations desiring to make, have made, sell or use Electrofax machines and Electrofax paper and supplies. In so doing, RCA has sought to establish a free and open competitive market for Electrofax machines and Electrofax paper, thus obtaining the benefits to be achieved from the stimulus of free competition. RCA itself has never engaged in the commercial manufacture or sale of Electrofax machines or in the commercial manufacture or sale of Electrofax paper or supplies.

46. In return for the grant of the aforesaid licenses, RCA receives royalties measured by the value of the licensed use of its Electrofax patents, which is presently calculated on a percentage of selling price. To date, RCA has granted licenses under its Electrofax patents to more than 150 persons, firms and corporations. RCA now has in effect 63 licenses under its Electrofax patents. Included among RCA's Electrofax licensees are manufacturers and sellers of Electrofax machines and manufacturers and sellers of Electrofax paper and supplies.

Commerce Involved

47. The trade and commerce involved in this action with respect to Electrofax machines consists of:

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(a) the sale, leasing and servicing of Electrofax machines in the interstate and foreign commerce of the United States:

(b) the sale, leasing and servicing of Electrofax liquid copiers in the interstate and foreign commerce of the United States.

48. The trade and commerce involved in this action with respect to Electrofax paper consists of:

(a) the sale of Electrofax paper in the interstate and foreign commerce of the United States:

(b) the sale of Electrofax paper designed for use in Electrofax liquid copiers in the interstate and foreign commerce of the United States;

(c) the sale of Electrofax paper designed for use in Electrofax machines sold and leased by plaintiff in the interstate and foreign commerce of the United States.

49. Each of the aforesaid lines of trade and commerce constitutes a separate and distinct line of trade and commerce.

50. The aforesaid lines of trade and commerce constitute a substantial part of the interstate and foreign commerce of the United States in that, upon information and belief, during the year 1966:

(a) revenues of approximately $65,000,000 were derived from the sale and leasing of Electrofax machines in the interstate and foreign commerce of the United States;

(b) revenues of approximately $46,000,000 were derived from the sale and leasing of Electrofax liquid

copiers in the interstate and foreign commerce of the United States;

(c) reveues of approximately $87,000,000 were derived from the sale of Electrofax paper in the interstate and foreign commerce of the United States;

(d) revenues of approximately $55,000,000 were derived from the sale of Electrofax paper designed for use in Electrofax liquid copiers in the interstate and foreign commerce of the United States; and

(e) revenues of approximately $37,500,000 were derived from the sale of Electrofax paper designed for use in Electrofax machines sold and leased by plaintiff in the interstate and foreign commerce of the United States.

51. Plaintiff is engaged in the aforesaid lines of trade and commerce, as is more fully set forth below.

The Offenses Charged

52. Beginning in or about the year 1959, and continuing up to and including the date of filing of this counterclaim, plaintiff and other persons acting for and on behalf of plaintiff have attempted unlawfully to monopolize and have unlawfully monopolized a substantial part of the interstate and foreign commerce of the United States as alleged in paragraphs 47 and 48 in violation of Section 2 of the Sherman Act.

53. Pursuant to the aforesaid attempt to monopolize and monopolization, during the aforesaid period of time, moreover, plaintiff and other persons acting for and on behalf of plaintiff have leased and sold Electrofax machines on the unlawful condition, agreement and understanding that the purchaser or lessee shall not buy or use

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the goods of a competitor or competitors of the plaintiff, the effect of which may be to tend to create a monopoly in violation of Section 3 of the Clayton Act.

With Respect to Electrofax Machines and Electrofax Liquid Copiers

54. Pursuant to the offenses set forth in paragraph 52, plaintiff has sought to dominate the markets alleged in paragraphs 47 and 48, without incurring the usual failures, delays and expenses to be expected upon entry into a new line of endeavor:

(a) On information and belief, prior to the year 1959, plaintiff (which was then known as Smith-Corona Marchant, Inc.) had no background or experience in the field of photocopying. Plaintiff deliberately and knowingly hired away numerous technical and sales personnel employed by prospective competitors engaged in the manufacture, sale and lease of, or research and development in the field of, photocopying machines and paper, in many instances inducing and causing said employees to breach their express or implied agreements with their employers. Included among said prospective competitors were present and former licensees of RCA's Electrofax process, and included among said employees were employees who had directly and indirectly received information regarding, and were informed of, RCA's development and technology in the field of Electrofax copying.

(b) On information and belief, in or about June 1961, plaintiff acquired the assets of St. Louis Microstatics Co., a company which had been licensed by RCA, and which had practical knowledge of and which had done research in the field of Electrofax copying.

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55. As a result of and pursuant to the offenses set forth in paragraph 52, plaintiff:

(a) succeeded, on information and belief, by 1963, in obtaining 40% of the sales and other placement of all Electrofax machines and 100% of the sales and other placement of all Electrofax liquid copiers, thereby acquiring monopoly power in these lines of commerce;

(b) utilized the resulting monopoly power to control the sales and determine the prices of Electrofax paper as hereinafter alleged; and

(c) employed the resulting monopoly profits to develop and promote new models of Electrofax machines.

56. On information and belief, plaintiff is now the principal and dominant manufacturer and seller in the United States of Electrofax machines and Electrofax liquid copiers. Plaintiff's sales and rental income from such machines and copiers during the year 1966 amounted to approximately $16,000,000. Of the total number of Electrofax liquid copiers presently in use, approximately 58% are copiers manufactured by plaintiff.

With Respect to Electrofax Paper, Electrofax Paper Designed for Use in Electrofax Liquid Copiers, and Electrofax Paper Designed for Use in Electrofax Machines Sold or Leased by Plaintiff

57. On information and belief, plaintiff has never commercially manufactured Electrofax paper, but has at all times purchased such paper from others for resale or other distribution to users of Electrofax machines. The paper so purchased by plaintiff has been purchased from manufacturers licensed under RCA patents.

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58. Pursuant to the offenses set forth in paragraphs 52 and 53, plaintiff has, upon information and belief:

(a) required lessees of its Electrofax machines to obtain all their requirements for Electrofax paper from the plaintiff by offering leases which provided that plaintiff would furnish the lessee with all needed supplies, including Electrofax paper;

(b) refused to sell its Model SCM 55, plaintiff's newest Electrofax machine, and compelled customers who wished to acquire said machines to lease said machines from plaintiff on the terms and conditions set forth above, thereby entirely precluding plaintiff's competitors from selling Electrofax paper to users of its Model SCM 55;

(c) inhibited, discouraged and restrained purchasers of its other Electrofax machines from purchasing Electrofax paper for use in said machines from competitors of plaintiff by offering service contracts for the servicing of its machines, which provided that plaintiff had the right to suspend the said contract if the owner used Electrofax paper sold by plaintiff's competitors;

(d) inhibited, discouraged and restrained purchasers of its other Electrofax machines from purchasing Electrofax paper for use in said machines from competitors of plaintiff by providing in its service contracts for the servicing of its machines and by providing in its performance guaranties that the said service contracts or the said guaranty would not apply in the event that repairs were made necessary by the use of Electrofax paper acquired from any firm other than plaintiff, while giving the purchaser the benefit of the said service contract or the said guaranty where repairs were made necessary through the use of plaintiff's Electrofax paper;

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(e) induced and required its supplier or suppliers of Electrofax paper to sell such paper to plaintiff at unreasonably low and discriminatory prices;

(f) inhibited, discouraged and restrained purchasers of its other Electrofax machines from purchasing Electrofax paper for use in said machines from competitors of plaintiff by refusing to sell parts for said machines to its competitors for use in servicing and repairing said machines; and

(g) further inhibited, discouraged and restrained the entry and growth of competition in the sale of Electrofax paper for use in Electrofax machines manufactured and sold by plaintiff by requiring and exacting restrictive covenants in its employment agreements, which covenants are designed to hamper and impede its employees from engaging in competition with plaintiff, and by instituting and prosecuting legal actions against former employees, and those associated with former employees, who have engaged or threatened to engage in competition with plaintiff.

59. As a result of and pursuant to the offenses set forth in paragraphs 52 and 53, plaintiff is now, on information and belief, the principal and dominant seller in the United States of Electrofax paper, of Electrofax paper designed for use in Electrofax liquid copiers, and of Electrofax paper designed for use in Electrofax machines sold and leased by plaintiff. Plaintiff sells approximately 39% of all Electrofax paper; 61% of all Electrofax paper designed for use in Electrofax liquid copiers; and more than 90% of all Electrofax paper designed for use in Electrofax machines sold and leased by plaintiff. Plaintiff's sales of Electrofax paper during the year 1966 amounted to approximately $34,000,000.

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60. As a further result of the offenses set forth in paragraphs 52 through 55 and 58, plaintiff is able to and does receive monopoly profits in the sale of Electrofax paper. On information and belief, plaintiff purchases such paper, packaged and ready for resale, at a price of less than one cent per sheet and resells such paper to customers at a price of approximately 3.2 cents per sheet, a mark-up of more than 300%.

With Respect to RCA

61. As alleged above, plaintiff, making use of RCA's research and development, has unlawfully acquired a dominant position in the markets alleged in paragraphs 47 and 48, and has wilfully abused that dominant position to eliminate RCA's lawful position in the market derived from its patents and thereby deprive the market of the free and open competitive structure sought to be established by RCA, the only lawful monopolist in the Electrofax field.

62. As is alleged below, plaintiff has, with respect to RCA, attempted to and has acted as a monopolist, thereby using its dominant position in the markets alleged in paragraphs 47 and 48, to confront RCA with a market dominated by only one possible licensee of its patents.

63. On or about March 1, 1963, plaintiff entered into a license agreement with RCA pursuant to which RCA gave plaintiff a non-exclusive license under claims 1 through 13 and claims 20 and 21 of Patent No. 3,052,539 to make, have made, lease, use and sell and otherwise dispose of Electrofax machines at a royalty of 2% of sales price, as defined in the said agreement. On or about June 17, 1963, the aforesaid license of March 1, 1963 was amended by letter

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agreement between plaintiff and RCA. Plaintiff was offered but declined to accept a non-exclusive license under Patent No. 2,922,883.

64. During the year 1964, RCA entered into discussions with its Electrofax licensees, including plaintiff, looking towards a revision of the royalty base provisions contained in its then existing Electrofax license agreements. The result of such discussions was that all commercially active licensees, except plaintiff, agreed to and were given by RCA, with respect to Electrofax machines, royalty base reductions of 10% in the case of wholesale selling prices and 35% in the case of retail selling prices, said percentage amounts to be deducted from the licensee's actual selling price before computing the percentage royalty to be paid.

65. Pursuant to the offenses set forth in paragraphs 52 through 55, 58 and 62, plaintiff has, with respect to Electrofax machines and Electrofax liquid copiers:

(a) refused to accept the reductions agreed to by all of RCA's other commercially active licensees (who were also plaintiff's competitors) and demanded that RCA give it a discriminatory reduction in royalty base of at least 50% off selling price, with the further proviso that plaintiff not pay RCA in excess of $100,000 in royalties in any year, regardless of the number of or dollar volume of licensed products sold by plaintiff; and

(b) sought to be released from the payment of any royalties, as is hereinafter alleged.

66. Pursuant to the offenses set forth in paragraphs 52 through 55, 58 and 62, plaintiff has, with respect to Elec-

trofax paper, Electrofax paper designed for use in Electrofax liquid copiers, and Electrofax paper designed for use in Electrofax machines sold or leased by plaintiff:

(a) sought to place the entire royalty burden for rights under RCA's Patent No. 3,052,539 upon Electrofax paper manufacturers to the exclusion of Electrofax machine manufacturers such as plaintiff by insisting that RCA not license Electrofax machine manufacturers and Electrofax paper manufacturers under separate sets of claims of said patent, and that only the Electrofax paper manufacturers should be required to enter into license agreements under the said patent; and

(b) sought to compel RCA to require licensees to take a compulsory package license by insisting that RCA not license Electrofax machine manufacturers and Electrofax paper manufacturers under separate sets of claims of Patent No. 3,052,539, but that it grant licenses only to paper manufacturers under all of the claims of the said patent.

67. When RCA refused to accede to plaintiff's various demands set forth above, plaintiff further informed RCA that unless RCA acceded to these demands it would terminate its existing license agreement with RCA. Upon RCA's continued refusal to accede to plaintiff's demands, as set forth above, plaintiff notified RCA by letter dated March 5, 1965 that it was terminating its existing license with RCA and instituting this action.

68. On or about March 5, 1965, plaintiff instituted this action, thereby attempting to invoke and obtain the aid of this Court to implement and assist it in the furtherance of the unlawful offenses alleged herein.

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Effects of Offenses

69. As a result of the offenses charged above:

(a) competition among manufacturers and others in the marketing, by sale, lease and other means, of Electrofax machines has been restrained and monopolized;

(b) competition among manufacturers and others in the marketing, by sale, lease and other means, of Electrofax liquid copiers has been restrained and monopolized;

(c) competition among manufacturers, wholesalers, retailers and others in the marketing by sale and other means of Electrofax paper has been restrained and monopolized;

(d) competition among manufacturers, wholesalers, retailers and others in the marketing by sale and other means of Electrofax paper designed for use in Electrofax liquid copiers has been restrained and monopolized; and

(e) competition among manufacturers, wholesalers, retailers and others in the marketing by sale and other means of Electrofax paper designed for use in Electrofax machines sold and leased by plaintiff has been restrained and monopolized.

70. As a result of the offenses alleged above, RCA has been immediately injured as lawful owner of its United States letters patent alleged above, in that RCA has been wilfully and maliciously deprived of royalties lawfully due and owing from plaintiff under United States Letters Patent No. 3,052,539, and has been put to the burden and expense of defending this law suit.

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71. As a result of the foregoing, RCA has been injured in its business and property in an amount estimated to be in excess of $1,000,000, which amount may become substantially greater as a result of plaintiff's continuing the violations heretofore alleged.

72. In addition to the foregoing, RCA has been threatened with loss and damage in that, on information and belief:

(a) RCA has been prevented and foreclosed from entering into license agreements with persons, firms and corporations which would, but for plaintiff's acts and offenses alleged herein, have entered the business of manufacturing and selling Electrofax machines, including Electrofax liquid copiers, and which would have taken licenses from RCA under its Electrofax patents;

(b) RCA has been prevented and foreclosed from enjoying the full benefits of its Electrofax patents in that, by reason of plaintiff's acts and offenses alleged herein, persons, firms and corporations licensed by RCA to manufacture and sell Electrofax machines, including Electrofax liquid copiers, have been deterred from, have refrained from, have been unable to, and have not developed, promoted and commercially exploited RCA's patented inventions as they otherwise would have, but for said acts and offenses;

(c) RCA has been prevented and foreclosed from entering into license agreements with persons, firms and corporations which would, but for plaintiff's acts and offenses alleged herein, have entered the business of manufacturing and selling Electrofax paper, in-

cluding Electrofax paper designed for use in Electrofax liquid copiers, and Electrofax paper designed for use in Electrofax machines sold and leased by plaintiff, and which would have taken licenses from RCA under its Electrofax patents;

(d) RCA has been prevented and foreclosed from enjoying the full benefits of its Electrofax patents in that, by reason of plaintiff's acts and offenses alleged herein, persons, firms and corporations licensed by RCA to manufacture and sell Electrofax paper, including Electrofax paper designed for use in Electrofax liquid copiers and Electrofax paper designed for use in Electrofax machines sold and leased by plaintiff, have been deterred from, have refrained from, have been unable to, and have not developed, promoted and commercially exploited RCA's patented inventions as they otherwise would have, but for said acts and offenses; and

(e) RCA has been prevented and foreclosed from enjoying the full benefits of its Electrofax patents in that, by reason of plaintiff's acts and offenses alleged herein, persons, firms and corporations owning or possessing Electrofax machines have been deterred from, have refrained from, and have not purchased, or otherwise acquired, and used Electrofax paper, including Electrofax paper designed for use in Electrofax liquid copiers and Electrofax paper designed for use in Electrofax machines sold or leased by plaintiff as they otherwise would have, but for said acts and offenses.

73. Unless the relief RCA requests is granted, it will suffer immediate, further and irreparable injury.

74. RCA has no adequate remedy at law.

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PRAYER FOR RELIEF

WHEREFORE, defendant RCA prays that this Court order, adjudge and decree:

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5. That RCA have judgment on its Second Counterclaim.

6. That plaintiff has violated Section 2 of the Sherman Act and Section 3 of the Clayton Act.

7. That plaintiff pay to RCA three-fold the damages sustained by RCA.

8. That plaintiff, its officers, agents, servants, employees, attorneys and all persons in active concert or participation with them be enjoined from:

(a) requiring lessees of its Electrofax machines to obtain their supplies of paper from plaintiff;

(b) refusing to sell any of its Electrofax machines at reasonable prices to customers who desire to purchase such machines;

(c) entering into service contracts with owners of Electrofax machines manufactured by plaintiff or extending guaranties to such purchasers which are conditioned in any way upon the purchaser's using paper sold by plaintiff or which give benefits to the purchaser as a result of his using paper purchased from plaintiff;

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(d) soliciting or receiving any unreasonably low or discriminatory prices in the purchase of Electrofax paper for use in Electrofax machines;

(e) soliciting unreasonably low or discriminatory royalties from patent licensors;

(f) seeking to compel patent licensors to engage in compulsory package licensing; and

(g) engaging in other unlawful offenses alleged herein.

9. That RCA recover its costs and expenses and reasonable attorneys' fees.

10. That RCA have such other and further relief as to this Court may seem just and proper.

June 13, 1967

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